



COMPANY UPDATE / RATING CHANGE

Key Metrics

PDCE - NASDAQ - as of	2/28/17	\$67.59
Price Target		\$85.00
52-Week Range	\$48.15 -	\$84.88
Shares Outstanding (mm)		65.7
Market Cap. (\$mm)		\$4,438.7
1-Mo. Average Daily Volume		780,728
Institutional Ownership		77.0%
Debt/Total Capital	Q4'16	21.8%
ROE	FY'16	-9.4%
Book Value / Share	Q4'16	\$44.52
Price / Book Value		1.5x
Dividend Yield		NA
LTM Adj. EBITDA Margin		84.6%

Adjusted EBITDA / Share - FY 12/31

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$1.27	--	\$1.78	--	--
2Q	\$2.48	--	\$2.07	--	--
3Q	\$2.63	--	\$2.45	--	--
4Q	\$2.35	--	\$2.89	--	--
Year	\$8.88	\$10.27	\$9.20	--	\$12.78
Mult.	7.6x		7.3x		5.3x

Product Sales (\$mm)

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$75	--	\$176	--	--
2Q	\$111	--	\$200	--	--
3Q	\$142	--	\$232	--	--
4Q	\$169	--	\$261	--	--
Year	\$497	\$809	\$910	--	\$1,198

Company Description: Denver, CO – based PDC Energy is a junior exploration and production company with operations in the Rocky Mountain, Delaware (Permian) and Utica basins. In 2016, the company produced 22.2 Mmboe (million barrels of oil equivalent) from proved reserves of approximately 341 Mmboe (35% crude, 40% gas, 25% NGLs).

Energy

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PDC Energy

PDCE -- NASDAQ – Long-term Buy-3

Q4 Volume +33%, Pricing +24% Yr/Yr, Acquisition Contributing; Raise Rating to Long-term Buy

Investment Highlights

- We are raising our rating on PDCE from Neutral to Long-term Buy with a 24-month target price of \$85.
- PDC reported Q4'16 adjusted EBITDA of \$138M vs. \$129M a year ago. Our forecast was for \$140M while consensus was \$147M.
- Production increased 7% sequentially to 6.4 Mmboe in Q4, at 61% liquids vs. 64% a year-ago. Realized pricing was \$32.73/Boe, up 4% sequentially while “all in” production costs of \$29.65/Boe were down 9% from Q3 and down 13% yr/yr.
- Net debt to total capitalization was 28% at year-end. With \$244M in cash and \$700M available on the credit facility, we see the ~\$750M 2017 Capex program amply funded.
- We are increasing our 2017 output target from 26.6 Mmboe to 30.9 Mmboe and inaugurating a 2018 forecast of 33.5 Mmboe. Allowing for continued pricing improvement, but also firming costs and the dilution of the Permian acquisition, our 2017 adjusted EBITDA per share forecast declines from \$10.27 to \$9.20. We are inaugurating a 2018 forecast of \$12.78.
- The shares are currently trading at 16% average discounts to historical median cash flow multiples and at \$2.62 on an EV/Mcfe basis, a ~29% discount to the sector average. At our \$85 price target, the shares would trade at a 4% average premium to historical cash flow multiples, but still a 13% discount to the sector on an EV/Mcfe basis, which we believe reasonably balances valuation.

Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5

ADDITIONAL DISCUSSION

PDC grew reserves 25.1% in 2016, to 341.5 MMboe. With an inventory of ~2,600 potential drill sites, more than double the current count, we believe PDCE can increase production, cash flows and reserves at attractive rates for the intermediate term. Our 2017 – 2018 forecasts see production growth averaging 14.5%, Adjusted EBITDA up an average of 40.4% and reserves increasing by approximately nine percent per year.

The ~\$750M mid-point of forecasted 2017 Capex is targeting ~160 wells. With \$244M in cash at year-end and \$700M of availability on its credit facility, we believe the balance sheet is well-positioned to fund the development activity that supports this outlook.

Hedges cover ~78% and ~53% of our forecasted 2017 oil and gas production at ~\$49/Bbl and \$3.51/Mcf, respectively. Approximately 55% of 2018 oil and gas production is hedged at \$51/Bbl and ~\$2.94/Mcf.

SUITABILITY RATING

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive). This reflects our favorable view of the company's relatively high-performing production development, competitive cost structure in the Rockies, Permian and Utica basins, attractive hedge position and notably strong balance sheet condition. This is balanced, however, against a challenging industry-wide market environment.

CONSIDERATIONS AND RISKS

The energy production industry is highly capital intensive and highly competitive and is subject to a range of economic and operational risks. Foremost among these risks may be volatility in the underlying commodity pricing, which is subject to supply and demand fundamentals related to factors such as economic conditions, weather patterns and logistical constraints. The industry is also subject to a range of regulatory risks, including changes in environmental and pollution policies, permitting requirements, and employee benefits obligations. Operating and financial risks include drilling success rates and costs related to expansion of the reserve base and sufficient access to capital.

Company-specific risks include potential capital requirements and midstream access for its development projects in its Rockies and Utica operations.

Additional information is available upon request.

PDC Energy (PDCE)

Financial Model (\$\$ in '000s) FYE Dec.

Income Statement Analysis	FY14	FY15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Revenues													
Gas & Oil Sales	471,413	378,713	75,367	110,841	141,805	169,340	497,353	175,500	200,400	231,900	260,700	909,900	1,197,900
NG Marketing	71,571	10,920	2,171	1,879	2,678	1,997	8,725	3,250	3,250	3,250	3,250	15,000	16,000
Well Ops. & Pipeline	2,919	2,510	2,237	178	10	93	2,518	100	100	100	100	500	3,400
Commodity Hedging Gain (Loss)	310,304	203,183	11,056	(92,801)	19,397	(63,333)	(125,681)	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	856,207	595,326	90,831	20,097	163,890	108,097	382,915	178,850	203,750	235,250	264,050	925,400	1,217,300
Costs & Expenses													
Production Expenses	83,624	91,932	23,442	24,183	28,617	33,533	109,775	33,980	36,570	39,740	42,600	171,690	195,380
NG Marketing	72,015	11,717	2,578	2,125	3,092	2,398	10,193	3,250	3,250	3,250	3,250	15,000	16,000
Exploration	947	1,102	210	237	241	3,981	4,669	280	280	280	280	5,000	5,350
Asset Retirement Accretion	3,415	6,293	1,812	1,811	1,777	1,680	7,080	1,800	1,800	1,800	1,800	7,430	7,800
G & A	115,859	83,783	22,779	23,579	32,510	33,602	112,470	34,470	36,730	39,510	41,930	157,100	170,760
D, D & A	192,528	303,258	97,388	107,014	112,927	99,545	416,874	129,020	138,870	150,900	161,790	581,040	630,220
Operating Profit	387,819	97,241	(57,378)	(138,852)	(15,274)	(66,642)	(278,146)	(23,950)	(13,750)	(230)	12,400	(11,860)	191,790
%	45.3%	16.3%	-63.2%	-690.9%	-9.3%	-61.7%	-72.6%	-13.4%	-6.7%	-0.1%	4.7%	-1.3%	15.8%
Gain (Loss) on Leasehold Sales	(507)	385	84	(260)	219	-	43	-	-	-	-	-	-
Interest Inc.	1,290	4,807	1,558	177	140	(912)	963	90	80	70	60	300	-
(Interest Exp.)	(47,842)	(47,571)	(11,894)	(10,672)	(20,193)	(19,213)	(61,972)	(16,500)	(16,750)	(17,000)	(17,250)	(67,500)	(70,000)
Pre-Tax Income	340,760	54,862	(67,630)	(149,607)	(35,108)	(86,767)	(339,112)	(40,360)	(30,420)	(17,160)	(4,790)	(79,060)	121,790
Income Tax	69,967	(38,308)	(41,839)	(58,327)	(12,032)	(34,997)	(147,195)	(15,340)	(11,560)	(6,520)	(1,820)	(30,040)	46,280
%	20.5%	-69.8%	61.9%	39.0%	34.3%	40.3%	43.4%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%
Other Non-Recurring Expenses	(163,532)	(159,205)	(45,739)	(4,170)	(233)	(3,869)	(54,011)	-	-	-	-	-	-
Disc. Op's.	48,174	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	155,435	(66,035)	(71,530)	(95,450)	(23,309)	(55,639)	(245,928)	(25,020)	(18,860)	(10,640)	(2,970)	(49,020)	75,510
Shares Outstanding	36,678	39,591	41,608	46,742	48,839	58,914	49,052	65,775	66,030	66,280	66,530	66,154	67,154
EPS - GAAP	\$4.24	(\$1.67)	(\$1.72)	(\$2.04)	(\$0.48)	(\$0.94)	(\$5.01)	(\$0.38)	(\$0.29)	(\$0.16)	(\$0.04)	(\$0.74)	\$1.12
EPS - adjusted operating	(\$1.03)	(\$1.18)	(\$0.89)	(\$0.11)	(\$0.12)	\$0.18	(\$0.94)	-	-	-	-	-	-
Margin Analysis													
Gas & Oil Production GM	82.3%	75.7%	68.9%	78.2%	79.8%	80.2%	77.9%	80.6%	81.8%	82.9%	83.7%	81.1%	83.7%
G&A as % of Rev's	13.5%	14.1%	25.1%	117.3%	19.8%	31.1%	29.4%	19.3%	18.0%	16.8%	15.9%	17.0%	14.0%
D, D & A as % of O&GRev's	40.8%	80.1%	129.2%	96.5%	79.6%	58.8%	83.8%	73.5%	69.3%	65.1%	62.1%	63.9%	52.6%
Rate of Change Analysis													
Gas & Oil Sales	31.2%	-19.7%	1.7%	14.4%	35.7%	64.1%	31.3%	132.9%	80.8%	63.5%	54.0%	82.9%	31.7%
Adjusted EBITDA	49.3%	22.7%	-35.5%	14.5%	-1.7%	7.0%	-1.7%	121.1%	18.3%	26.3%	39.3%	39.8%	41.0%
Production of 9.3 (ex-Marcellus) Mmboe @ 61% liquids	Production of 15.3 Mmboe @ 64% liquids	3/11- \$297M share offering	6/16- announce ~14k ac acreage in CO field; settle \$115M convertible	8/23- announce ~\$1.5B Delaware (Permian) acq., 57k ac, 7 Mboe/d, Dec close target, 9/12- \$1.2B capital raises (9.1M shares for \$556M, \$400M Sr Notes & \$200M convertible)	12/6- 9.4M shares issued as part of Permian acq.	Production of 22.2 Mmboe @ 61% liquids							
Forecasted gas & oil revenues include estimated impact of commodity hedging								1/4- 4.5k ac bolt-on acq in Permian				Forecasting production of 30.9 Mmboe @ 61% liquids (pending TX acq)	Forecasting production of 33.5 Mmboe @ 61% liquids

Source: Company reports and Hilliard Lyons estimates

PDC Energy (PDCE) (\$'s in '000's)

Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Inc.	155,435	(66,035)	(71,530)	(95,450)	(23,309)	(55,639)	(245,928)	(25,020)	(18,860)	(10,640)	(2,970)	(49,020)	75,510
D, D & A	192,528	303,258	97,388	107,014	112,927	99,545	416,874	129,020	138,870	150,900	161,790	581,040	630,220
(Increase) Decrease in Wrkg. Cap.	(95,112)	(15,605)	28,531	(21,501)	71,765	65,925	144,720	(7,540)	14,940	18,900	17,280	43,580	24,165
Operating C.F.	252,851	221,618	54,389	(9,937)	161,383	109,831	315,666	96,460	134,950	159,160	176,100	575,600	729,895
(Cap Ex.)	(628,592)	(604,668)	(122,759)	(112,948)	(118,015)	(84,671)	(438,393)	(150,000)	(200,000)	(200,000)	(200,000)	(750,000)	(787,500)
(Acquisition Exp.)	-	-	-	-	(100,000)	(975,678)	(1,075,678)	-	-	-	-	-	-
Asset Sales	154,457	405	90	4,813	42	-	4,945	-	-	-	-	-	-
(Dividends)	-	-	-	-	-	-	-	-	-	-	-	-	-
Free C.F.	(375,741)	(383,050)	(68,280)	(118,072)	(56,590)	(950,518)	(122,727)	(53,540)	(65,050)	(40,840)	(23,900)	(174,400)	(57,605)
ST Debt Drawn	263,750	397,000	85,000	-	-	-	85,000	40,160	48,790	30,630	17,930	137,510	28,803
(ST Debt Repaid)	(200,000)	(416,000)	(122,000)	-	-	-	(122,000)	-	-	-	-	-	-
LT Debt Drawn	-	-	-	-	586,229	(122)	586,107	-	-	-	-	-	-
(LT Debt Repaid)	-	-	-	(115,000)	-	-	(115,000)	-	-	-	-	-	-
Stock Issued	-	202,851	296,578	-	558,494	2	855,074	-	-	-	-	-	-
(Stock Repurchased)	(5,392)	(6,056)	-	-	-	-	-	-	-	-	-	-	-
Net C.F.	(317,383)	(205,255)	191,298	(233,072)	1,088,133	(950,638)	1,166,454	(13,380)	(16,260)	(10,210)	(5,970)	(36,890)	(28,803)
Supplemental Cash Flows Analysis:													
Adjusted EBITDA	\$ 361,106	\$ 442,956	\$ 52,868	\$ 115,714	\$ 128,649	\$ 138,183	\$ 435,404	\$ 116,870	\$ 136,920	\$ 162,470	\$ 192,490	\$ 608,750	\$ 858,300
per share	\$9.85	\$11.19	\$1.27	\$2.48	\$2.63	\$2.35	\$8.88	\$1.78	\$2.07	\$2.45	\$2.89	\$9.20	\$12.78
margin	66.1%	113.0%	66.3%	102.5%	89.0%	80.6%	85.6%	65.3%	67.2%	69.1%	72.9%	65.8%	70.5%
Balance Sheet Analysis													
Cash	16,066	850	238,545	109,099	1,197,692	244,100	244,100	230,720	214,460	204,250	198,280	198,280	169,480
Accounts Receivable	131,204	104,274	100,053	107,350	99,895	143,392	143,392	143,080	163,000	188,200	211,240	211,240	182,600
Fair Value of ST Derivatives	187,495	221,659	183,484	98,839	65,604	8,791	8,791	8,800	8,800	8,800	8,800	8,800	8,800
Other Current Assets	193,449	226,925	189,454	102,686	70,458	12,333	12,333	12,300	12,300	12,300	12,300	12,300	12,300
Total Current Assets	340,719	332,049	528,052	319,135	1,368,045	399,825	399,825	394,900	398,560	413,550	430,620	430,620	373,180
Net PP&E	1,800,186	1,937,678	1,942,498	1,930,595	1,932,274	4,008,266	4,008,266	4,029,200	4,090,300	4,139,400	4,177,600	4,177,600	4,334,900
Other Assets	199,683	100,816	44,847	21,940	116,961	77,751	77,751	77,800	77,800	77,800	77,800	77,800	77,800
Total Assets	2,340,588	2,370,543	2,515,397	2,271,670	3,417,280	4,485,842	4,485,842	4,501,900	4,566,660	4,630,750	4,686,020	4,686,020	4,785,880
ST & Current Portion of LT Debt	-	149,940	114,183	-	-	-	-	40,160	88,950	119,580	137,510	137,510	166,310
Accounts Payable	130,321	92,613	73,898	64,234	62,350	66,322	66,322	171,700	195,600	225,840	253,490	253,490	304,330
Fair Value of Derivatives	570	1,595	5,173	22,824	22,563	53,595	53,595	53,600	53,600	53,600	53,600	53,600	53,600
Other Current Liabilities	179,500	57,184	94,917	100,141	134,368	150,661	150,661	150,700	150,700	150,700	150,700	150,700	150,700
Total Current Liabilities	310,391	301,332	288,171	187,199	219,281	270,578	270,578	416,160	488,850	549,720	595,300	595,300	674,940
Long-term Debt	664,923	529,437	492,717	492,997	1,041,575	1,043,954	1,043,954	1,043,950	1,043,950	1,043,950	1,043,950	1,043,950	1,043,950
Other LT Liabilities	227,915	252,577	218,060	166,909	170,364	548,556	548,556	548,600	548,600	548,600	548,600	548,600	548,600
Shareholders' Equity	1,137,359	1,287,197	1,516,449	1,424,565	1,986,060	2,622,754	2,622,754	2,493,190	2,485,260	2,488,480	2,498,170	2,498,170	2,518,390
Book Value	\$ 31.01	\$ 32.51	\$ 36.45	\$ 30.48	\$ 40.67	\$ 44.52	\$ 53.47	\$ 37.90	\$ 37.64	\$ 37.54	\$ 37.55	\$ 37.76	\$ 37.50
Current Ratio	1.1x	1.1x	1.8x	1.7x	6.2x	1.5x	1.5x	0.9x	0.8x	0.8x	0.7x	0.7x	0.6x
LT Debt/Cap. - Net of Cash	36.0%	29.1%	12.7%	20.0%	-5.2%	21.8%	21.8%	23.0%	23.5%	23.8%	23.9%	23.9%	24.5%
ROE: DuPont	13.7%	-5.1%	-4.7%	-6.7%	-1.2%	-2.1%	-9.4%	-1.0%	-0.8%	-0.4%	-0.1%	-2.0%	3.0%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Joel K. Havard, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

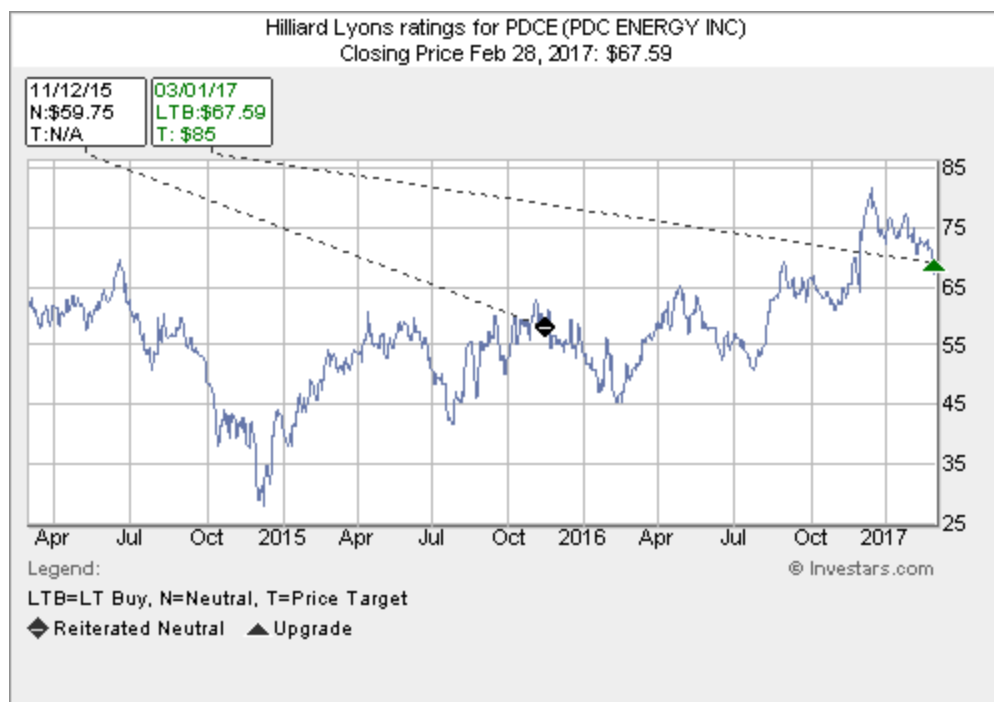
Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

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